

# REQUEST FOR COUNCIL ACTION

Meeting

Date 01/06/03

GENDA SECTION  
Rochester Public Utilities

ORIGINATING DEPT:  
Consent Agenda

ITEM NO.

D-26

ITEM DESCRIPTION:  
Consideration of Public Utility Board Action

PREPARED BY:  
Kathy Wilson

The Rochester Public Utility Board has approved the following on December 23, 2002 and requests the Common Council's favorable consideration:

- to approve a resolution to approve an insurance agreement with Starr Technical Risks Agency, Inc. for All Risk Property Insurance. The insurance agreement to be for a twelve month policy period commencing December 31, 2002 and expiring December 31, 2003. The amount of the twelve month premium to be \$509,227.00.
- to approve a resolution to approve an insurance agreement with the League of Minnesota Cities Insurance Trust. for Commercial Automobile and General Liability Insurance. The insurance agreement to be for a twelve month policy period commencing December 31, 2002 and expiring December 31, 2003. The amount of the twelve month premium to be \$101,254.00.
- to approve a resolution to approve an insurance agreement with Associated Electric and Gas Insurance Services, Ltd. (AEGIS). for Excess General Liability Insurance. The insurance agreement to be for a twelve month policy period commencing December 31, 2002 and expiring December 31, 2003. The amount of the twelve month premium to be \$64,134.00.
- to approve a resolution to approve the 2003 RPU electric and water capital and operating budgets.

GENERAL MANAGER:

*Larry Kosher*

COUNCIL ACTION:

Motion by: \_\_\_\_\_

Second by: \_\_\_\_\_

to:

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## FOR BOARD ACTION

Agenda Item # 7

Meeting Date:

12/23/02

SUBJECT: INSURANCE QUOTATIONS

PREPARED BY: Curt Kraft, Director of Administration *CYK*

**ITEM DESCRIPTION:**

Listed below are the recommended insurance quotations for obtaining all risk property insurance and general liability and automotive insurance for 2003.

**ALL RISK PROPERTY INSURANCE:**

The C.O. Brown Agency requested proposals from several companies. They received only one proposal from Starr Technical Risk Agency (Hartford Steam), our current property insurance provider. The other carriers declined to provide a proposal due to the cost of the reinsurance market for the amount of our property limit, which is at \$ 150,000,000.

The cost of property insurance continues to rise after many years of stable or flat premium costs. The cost per thousand dollars of coverage increased thirty four percent from 2002 to 2003. The new gas turbine at Cascade Creek came on line in 2002, and added almost thirty million dollars to the overall property valuation list. The current policy carries a \$ 500,000 deductible at all locations, which was increased by the Board last year.

	<u>PROPERTY VALUE</u>	<u>PREMIUM</u>
2002	\$ 158,910,000	\$ 319,581
2003	\$ 189,670,000	\$ 509,227

The above coverage does not provide for acts of terrorism.

**LIABILITY AND COMMERCIAL AUTO INSURANCE:**

Staff recommends maintaining the same structure of coverage for liability and auto insurance, having the League of MN Cities provide the primary coverage up to \$ 1,000,000.

Staff also recommends maintaining AEGIS to provide blanket liability coverage with limits from \$ 1,000,000 up to \$ 20,000,000.

	<u>2002</u>	<u>2003</u>
League of MN Cities	\$ 105,182	\$ 101,254
AEGIS	\$ 42,696	\$ 64,134

**UTILITY BOARD ACTION REQUESTED:**

The Board is requested to approve the attached resolutions for property and liability insurance for 2003 and to request Council approval of the same.

*Larry Koshur*  
General Manager

*12/19/02*  
Date

ROCHESTER PUBLIC UTILITIES

DEC. 19. 2002 11:11AM

CO BROWN

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*C.O. Brown Agency, inc.*  
300 South Broadway  
Rochester, Minnesota 55904  
Telephone 507/288-7600  
1/800/288-3715  
Fax 507/287-3589

December 19, 2002

Curt Kraft  
Rochester Public Utilities  
4000 East River Road NE  
Rochester, MN 55906-2813

Dear Curt:

We contacted the following companies for Property/Boiler proposals: Zurich, CAN, Travelers, Utility Management services, and LMG Property. I previously gave you a copy of their responses.

CNA provided a Boiler proposal. However, they are not able to provide the property coverage, nor were any of the other companies. The market conditions are very restrictive due to reinsurance treaty contracts, as the property limit of coverage is \$150,000,000.00

AIG (Hartford Steam) is still the best market. Their renewal proposal for the Property/Boiler is \$509,227.00. This is a 34% increase from last year; however, the total property values have increased from \$158,910,815.00 to \$189,669,846.00 due primarily to the addition of the new Combustion Turbine at the Cascade Creek Substation.

Please note that AIG is offering Terrorism coverage according to the "Terrorism Risk Insurance Act of 2002". According to this new law, they are required to offer Terrorism coverage to you with a \$150,000,000.00 limit. This limit would be subject to your \$500,000.00 deductible. The additional premium for this coverage is \$36,500.00. If this coverage is not desired, we must return to AIG a signed disclosure statement whereby you reject the coverage. We must return this signed rejection statement prior to December 31st, 2002 or Terrorism coverage will be added for the additional premium of \$36,500.00.



DEC. 19. 2002 11:11AM

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The AEGIS renewal premium increased from \$42,896.00 to \$64,134.00. The AEGIS renewal premium of \$64,134.00 includes a continuity credit of \$18,281.00 and an EPPIC discount of \$8,680.00. The AEGIS continuity credit was reduced to all AEGIS members due to September 11, 2001 along with the Enron situation. The continuity credit percentage was reduced from 8% to 6 1/2%.

In checking with other Excess Liability Insurance carriers, none of them are able to provide the following coverages:

Pollution Liability  
Failure to Supply  
Dam Liability

The "tailored" coverages along with the AEGIS continuity credit and the EPPIC discount make it difficult for other companies to be competitive.

I highly recommend that you renew with your current insurance companies under the current market conditions. Now is not the time to be changing companies. It is most imperative to continue to build a long-term relationship with carriers, especially, when your loss history is performing well. Your current carriers are the main players in the utility industry and AIG has the best engineering service in your industry.

Please give me a call if you have any questions or if you would like to get together to review in further detail.

Respectfully Submitted,

Lyle Papenfuss  
C.O. Brown Agency



# FOR BOARD ACTION

Agenda Item # 9

Meeting Date:

12/23/02

**SUBJECT:**

APPROVAL OF THE 2003 WATER AND ELECTRIC CAPITAL AND OPERATING BUDGETS

**PREPARED BY:**

Larry Koshire, General Manager

ITEM DESCRIPTION:

At the November RPU Board meeting, the electric and water 2003 operating budgets were presented to the Board. Budget detail was provided to allow the Board time to review the information and direct any specific questions regarding its content to RPU management. No modifications were made to the budgets presented in November, and we are returning for final discussion and approval.


The 2003 forecasted budget reflects electric revenue of approximately \$95 million, a 2.8% increase over expected 2002 results. Forecasted electric sales growth is just under 2%. The water budget forecast is approximately \$6.2 million, a 7.1% increase over expected 2002 results. Water sales forecast is just under 5%, reflecting a normalized sales year over what was considered a wet year in 2002.

Both the electric and water budgets continue to reflect a strong economic growth in the community, and the capital required to provide the electric and water infrastructure for this growth. In addition, the budget reflects significant dollars required by the various highway projects planned in the Rochester area and the necessary utility re-routes. The budgets also reflect the need for a rate increase effective April 1, 2003, which would include a 1% increase in the electric revenue and a 4% increase in water revenue. Year-end analysis will be done in the first quarter of 2003, and staff will return with a rate adjustment recommendation in February. No request for rate adjustments is being made at this time.

Please bring your budget booklets to the meeting for any additional questions on the information provided. Pending any last minute adjustments, we recommend adoption of the budget as presented.

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve the 2003 electric and water capital and operating budget.

  
General Manager

  
Date

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ROCHESTER PUBLIC UTILITIES

2003

ELECTRIC UTILITY

OPERATING BUDGET

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**ROCHESTER PUBLIC UTILITIES**  
**CONDENSED INCOME STATEMENT**  
**ELECTRIC UTILITY**  
**2003 ANNUAL OPERATING BUDGET**  
(\$000's)

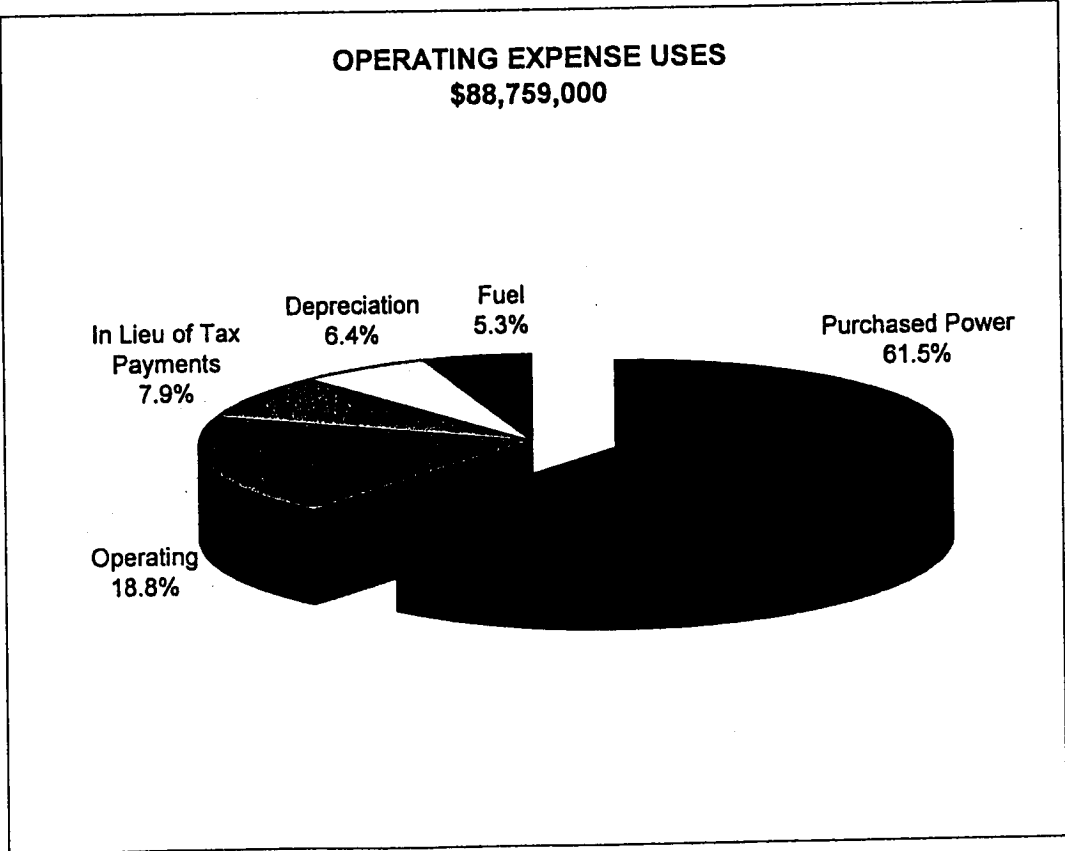
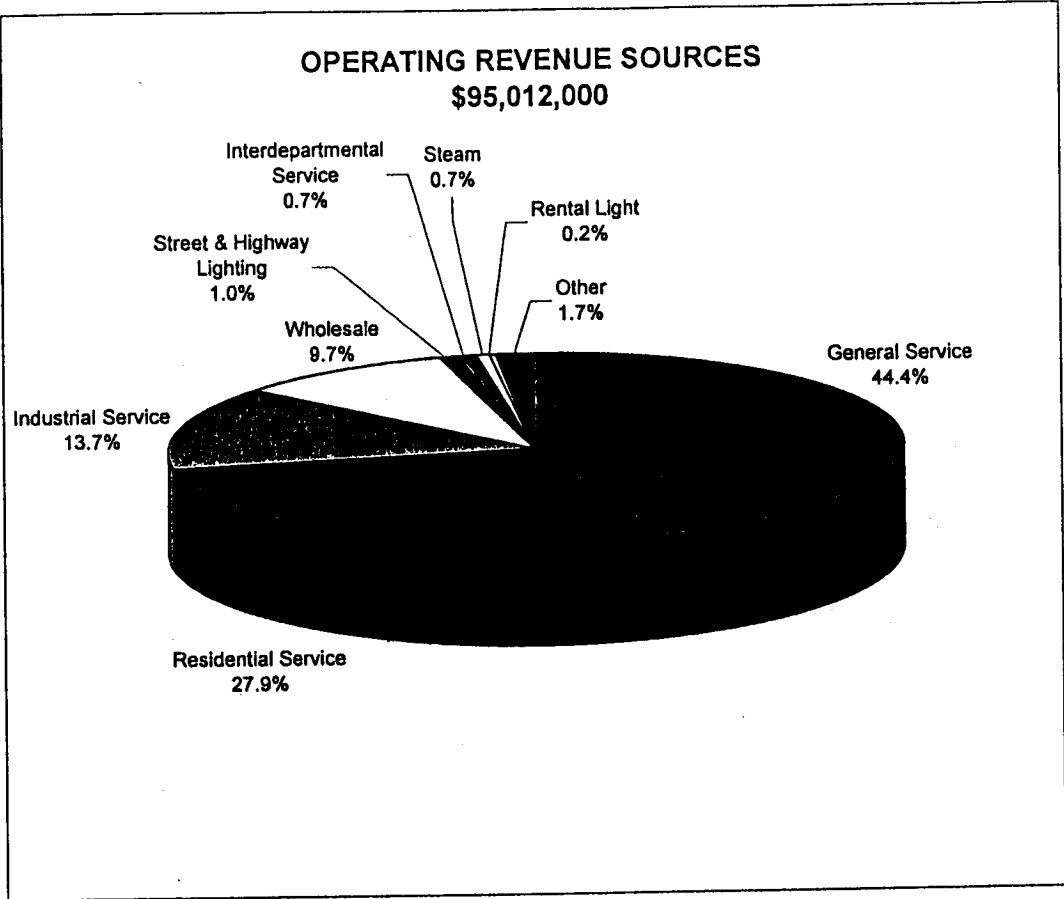
	<u>2002 Forecast*</u>	<u>2003 Budget**</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATING REVENUE</b>				
Retail Revenue				
Electric - Residential Service	25,423	26,507	1,084	4.1
Electric - General Service	40,352	42,191	1,840	4.4
Electric - Industrial Service	13,204	13,039	(165)	(1.3)
Electric - Public Street & Highway Lighting	887	935	48	5.1
Electric - Rental LightRevenue	143	149	5	3.5
Interdepartmental Service	615	657	42	6.3
Total Retail Revenue	80,625	83,478	2,853	3.4
Wholesale Revenue				
Energy & Fuel Reimbursement	5,403	4,329	(1,074)	(24.8)
Capacity & Demand	4,988	4,925	(63)	(1.3)
Wholesale Sales Misc	24	0	(24)	0.0
Total Wholesale Revenue	10,415	9,254	(1,161)	(12.5)
Steam Sales	0	638	638	100.0
Other Operating Revenue	1,402	1,642	239	14.6
<b>TOTAL OPERATING REVENUE</b>	<b>92,442</b>	<b>95,012</b>	<b>2,570</b>	<b>2.7</b>
<b>OPERATING EXPENSE</b>				
Purchased Power	54,453	54,606	153	0.3
Generation Fuel	5,390	4,746	(644)	(13.6)
In Lieu of Tax Payments	6,764	6,996	232	3.3
Depreciation And Amortization	3,960	5,697	1,737	30.5
Salaries & Benefits	12,536	13,370	834	6.2
Materials, Supplies, & Services	21,874	19,672	(2,202)	(11.2)
Inter-Utility Allocations	(919)	(1,213)	(294)	24.2
Capitalized Expenses	(17,714)	(15,114)	2,599	(17.2)
<b>TOTAL OPERATING EXPENSE</b>	<b>86,344</b>	<b>88,759</b>	<b>2,415</b>	<b>2.7</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>6,098</b>	<b>6,252</b>	<b>154</b>	<b>2.5</b>
<b>NON-OPERATING INCOME</b>				
Bond Interest Expense	(2,046)	(2,267)	(221)	9.7
Bond Issuance & Discount Expense	(23)	(17)	6	(33.1)
Allow for Borrowed Funds Used During Const	607	246	(361)	(147.1)
Interest Expense	(35)	(42)	(6)	14.5
Other Non-Operating Revenue/Expense				
Interest Income	659	397	(262)	(66.0)
Allow for Other Funds Used During Const	230	0	(230)	0.0
Miscellaneous - Net	794	(32)	(826)	2,574.7
Total Other Non-Operating Rev/Expense	1,683	365	(1,318)	(361.4)
<b>TOTAL NON-OPERATING INCOME</b>	<b>186</b>	<b>(1,715)</b>	<b>(1,901)</b>	<b>110.8</b>
<b>NET INCOME (LOSS)</b>	<b>6,284</b>	<b>4,537</b>	<b>(1,747)</b>	<b>(38.5)</b>

\* 2002 forecast contains 9 months of actuals and 3 months of forecast

\*\* Assumes 1% rate increase effective April 1, 2003

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ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2003 OPERATING BUDGET



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**ROCHESTER PUBLIC UTILITIES  
PRODUCTION & SALES STATISTICS FORECAST  
ELECTRIC UTILITY**

	2002	2003	2004	2005	2006	2007
Peak MW						
SMPA	216	216	216	216	216	216
Self Generation	38	59	71	81	98	109
Market	-	-	-	-	-	-
Total Peak MW	254	275	287	297	314	325
% Change	1.6%	7.9%	4.4%	3.8%	5.5%	3.6%
Retail MWH	1,186,419	1,196,705	1,244,884	1,291,820	1,336,455	1,382,712
% Change	8.6%	0.9%	4.0%	3.8%	3.5%	3.5%
Purchase Power MWH						
SMPA	1,201,696	1,214,608	1,256,491	1,296,010	1,326,153	1,361,282
Other	1,245	-	-	-	-	-
Total Purchase Power MWH	1,202,940	1,214,608	1,256,491	1,296,010	1,326,153	1,361,282
% Change	7.1%	1.0%	3.4%	3.1%	2.3%	2.6%
Generation MWH						
MMPA	130,650	151,325	151,325	138,525	75,663	75,663
Others	49,228	-	-	-	-	-
RPU	1,124	14,376	22,409	31,523	47,642	60,449
Total Generation MWH	181,003	165,701	173,734	170,048	123,304	136,111
% Change	11.6%	-8.5%	4.8%	-2.1%	-27.5%	10.4%
Number of Customers						
Residential	38,341	39,745	41,200	42,709	44,273	45,894
Small General Service	3,670	3,766	3,862	3,958	4,054	4,158
Medium General Service	329	341	353	365	377	389
Large General Service	20	20	21	21	21	21
Large Industrial Service	2	2	2	2	2	2
Street & Hwy Lightings	3	3	3	3	3	3
Interdepartmental	1	1	1	1	1	1
Total Customers	42,366	43,878	45,442	47,059	48,731	50,468
% Change	3.0%	3.6%	3.6%	3.6%	3.6%	3.6%
Steam Generation MLBS		57,887	347,324	347,324	347,324	347,324
% Change		100.0%	500.0%	0.0%	0.0%	0.0%

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**ROCHESTER PUBLIC UTILITIES**

**2003**

**ELECTRIC UTILITY**

**CAPITAL IMPROVEMENT AND  
MAJOR MAINTENANCE BUDGET**

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**ROCHESTER PUBLIC UTILITIES  
CAPITAL AND MAJOR MAINTENANCE PLAN  
MATERIALS, SUPPLIES & SERVICES  
5 YEAR SUMMARY (2003 - 2007)**

**ELECTRIC UTILITY  
(\$000's)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>5-Yr Total</u>
<b>Power Production</b>	5,230	1,430	1,170	1,550	1,500	10,880
<b>T &amp; D System Expansion</b>	2,880	3,834	7,724	8,478	4,541	27,457
<b>New Services</b>	1,090	1,193	1,231	1,272	1,315	6,101
<b>IT/SCADA/Communications</b>	911	895	931	804	804	4,345
<b>Vehicles</b>	445	484	480	347	656	2,412
<b>RPU Facilities</b>	164	296	348	11	11	830
<b>City/State Required</b>	1,236	825	415	140	60	2,676
<b>Tools</b>	54	20	45	20	20	159
<b>Enviromental</b>	82	50	-	-	-	132
<b>Other</b>	510	528	395	442	490	2,365
<b>Total Outside Expenditures</b>	12,602	9,555	12,739	13,064	9,397	57,357
<b>Total Internal Expenditures</b>	2,700	2,133	2,042	2,216	1,538	10,629
<b>Net Capital &amp; Major Maintenance Plan</b>	15,302	11,688	14,781	15,280	10,935	67,986

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# **ROCHESTER PUBLIC UTILITIES**

**2003**

**WATER UTILITY**

**OPERATING BUDGET**

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**ROCHESTER PUBLIC UTILITIES**  
**CONDENSED INCOME STATEMENT**  
**WATER UTILITY**  
**2003 ANNUAL OPERATING BUDGET**  
 (\$000's)

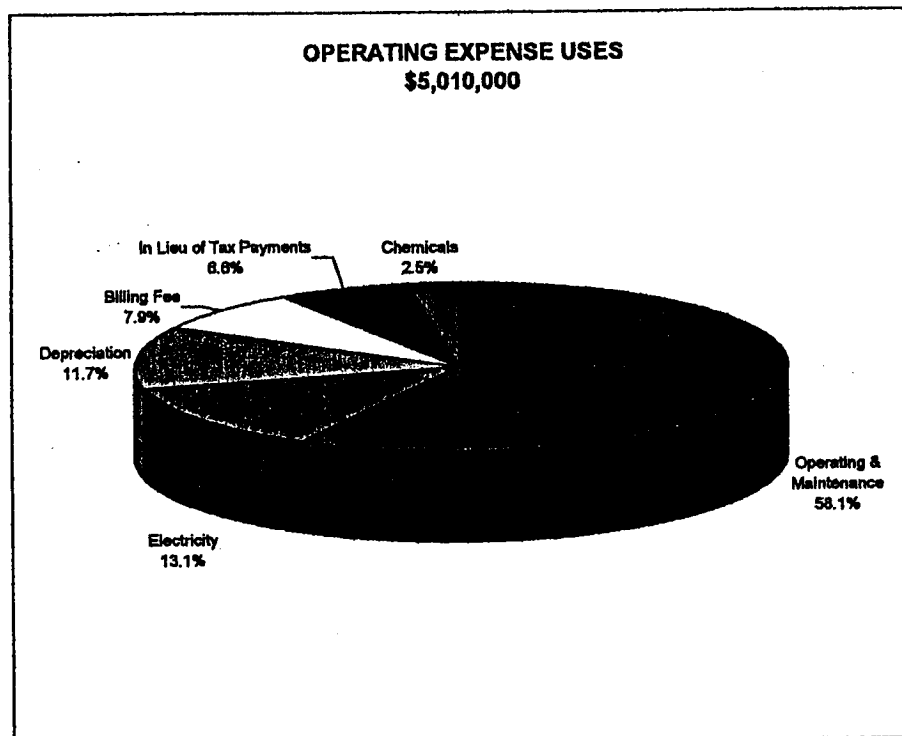
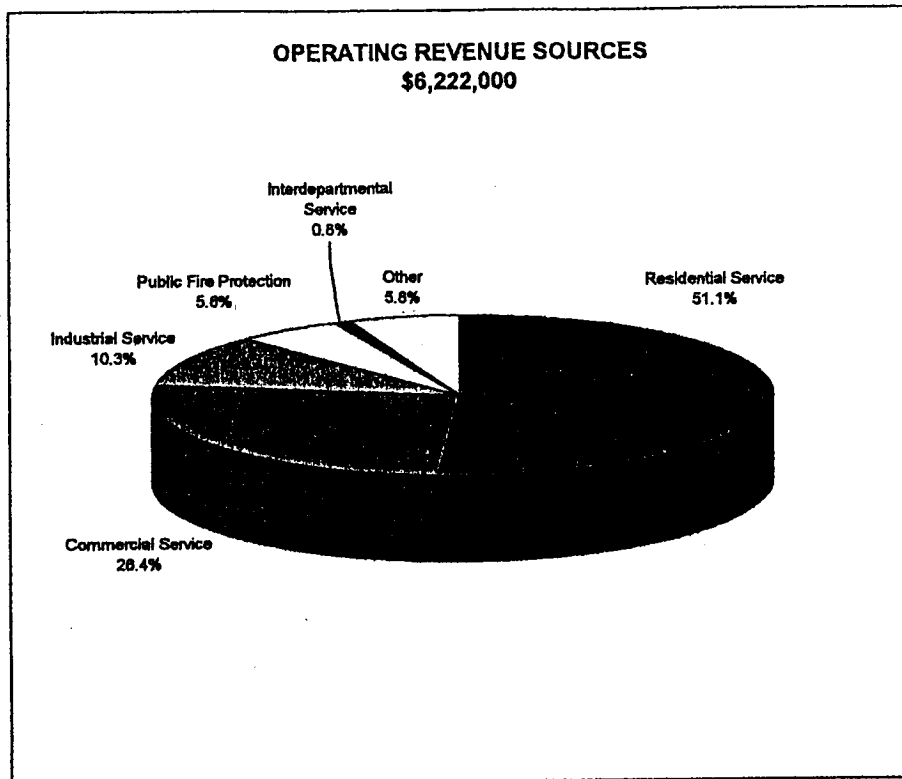
	<u>2002 Forecast*</u>	<u>2003 Budget**</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATING REVENUE</b>				
Retail Revenue				
Water - Residential Service	3,000	3,176	176	5.6
Water - Commercial Service	1,587	1,645	58	3.5
Water - Industrial Service	527	642	115	17.9
Water - Public Fire Protection	325	348	22	6.4
Interdepartmental Service	32	52	21	39.6
Total Retail Revenue	5,471	5,864	393	6.7
Other Operating Revenue	338	358	20	5.5
<b>TOTAL OPERATING REVENUE</b>	<b>5,809</b>	<b>6,222</b>	<b>412</b>	<b>6.6</b>
<b>OPERATING EXPENSE</b>				
In Lieu of Tax Payments	316	333	17	5.2
Depreciation & Amortization	525	586	61	10.5
Salaries & Benefits	1,360	1,413	54	3.8
Materials, Supplies, & Services	3,443	4,095	651	15.9
Inter-Utility Allocations	919	1,213	294	24.2
Capitalized & Other Deferred Expenses	(1,965)	(2,631)	(666)	25.3
<b>TOTAL OPERATING EXPENSE</b>	<b>4,598</b>	<b>5,010</b>	<b>411</b>	<b>8.2</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>1,211</b>	<b>1,212</b>	<b>1</b>	<b>0.1</b>
<b>NON-OPERATING INCOME</b>				
Interest Income	70	40	(30)	(74.9)
Miscellaneous - Net	(4)	-	4	-
<b>TOTAL NON-OPERATING INCOME</b>	<b>66</b>	<b>40</b>	<b>(26)</b>	<b>(65.5)</b>
<b>NET INCOME (LOSS)</b>	<b>1,277</b>	<b>1,252</b>	<b>(25)</b>	<b>(2.0)</b>

\* 2002 forecast contains 9 months actuals and 3 months forecast

\*\* Assumes 4% rate increase effective April 1, 2003

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ROCHESTER PUBLIC UTILITIES  
WATER UTILITY  
2003 OPERATING BUDGET



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**ROCHESTER PUBLIC UTILITIES  
PRODUCTION & SALES STATISTICS FORECAST  
WATER UTILITY**

	2002	2003	2004	2005	2006	2007
CCF Pumped	6,327,060	6,577,000	6,710,000	6,834,000	6,960,000	7,089,000
% Change	-1.2%	4.0%	2.0%	1.8%	1.8%	1.9%
Retail CCF	5,917,988	6,206,000	6,330,000	6,447,000	6,566,000	6,688,000
% Change	-0.8%	4.9%	2.0%	1.8%	1.8%	1.9%
Number of Customers						
Residential	28,381	29,243	30,132	31,051	32,001	32,979
Commercial	2,973	3,052	3,133	3,214	3,293	3,375
Industrial	36	36	36	36	36	36
Interdepartmental	1	1	1	1	1	1
Total Customers	31,391	32,332	33,302	34,302	35,331	36,391
% Change	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%

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**ROCHESTER PUBLIC UTILITIES**

**2003**

**WATER UTILITY**

**CAPITAL IMPROVEMENT AND  
MAJOR MAINTENANCE BUDGET**

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**ROCHESTER PUBLIC UTILITIES  
CAPITAL AND MAJOR MAINTENANCE PLAN  
MATERIALS, SUPPLIES & SERVICES  
5 YEAR SUMMARY (2003 - 2007)**

**WATER UTILITY  
(\$000's)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>5-Yr Total</u>
City/State Required	1,282	1,017	905	525	425	4,154
New Services	686	697	722	744	751	3,600
Wells & Towers	426	416	425	720	546	2,533
Vehicles	30	65	180	64	180	519
T & D System Expansion	105	31	31	35	35	237
IT/SCADA/Communications	10	16	10	10	17	63
Other	20	20	20	20	-	80
<b>Total Outside Expenditures</b>	<b>2,559</b>	<b>2,262</b>	<b>2,293</b>	<b>2,118</b>	<b>1,954</b>	<b>11,186</b>
<b>Total Internal Expenditures</b>	<b>244</b>	<b>248</b>	<b>254</b>	<b>232</b>	<b>237</b>	<b>1,215</b>
<b>Net Capital &amp; Major Maintenance Plan</b>	<b>2,803</b>	<b>2,510</b>	<b>2,547</b>	<b>2,350</b>	<b>2,191</b>	<b>12,401</b>

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